

American Manufacturing Will Rebuild The Economy

By: Congressman William O. Lipinski

(July 23, 2002)

MR. SPEAKER. Since March 2000, \$7 trillion dollars has vanished from U.S. capital markets. That is more than our entire national debt. Although much of our economy has been adversely affected by this dramatic loss of wealth, a few companies are responsible for the super-majority of these losses. Thanks to new data from Bianco Research in Chicago, 33 corporations are responsible for 72%, or \$4 trillion dollars in lost capitalization. 25 of these companies were once considered high-flying “New Economy” firms such as Cisco (#1 – the largest loser in market capitalization), Lucent (the 4th biggest loser), AOL Time Warner (#5), Nortel (#6), Oracle (#8) and JDS Uniphase (#10).

Certainly, many citizens are aware of these dramatic falls from grace. More are starting to figure this out when they analyze their retirement accounts. Today, hundreds of market analysts, economists, government agencies and plain-old folks are trying to figure out what went wrong. How could thousands of renowned “experts” be so wrong?

Widely covered news reports indicate wrongdoing, and even criminal behavior in firms such as WorldCom (#12), Tyco (#27), Enron (#32) and Global Crossing (#33). Others have asserted that the September 11th terror attacks were partially responsible. There is probably some truth in that statement. In the 18 months prior to September 11th, \$2.9 trillion in value vanished from the stock market. Ten months later, another \$4 trillion is gone.

Mr. Speaker, for those of us from our nation’s industrial heartland, the answers to these problems appear to be quite obvious. For many years now, the United States has drifted away from a coherent industrial course, which has been the foundation of America for decades. In fact, the industrial revolution is widely believed to have begun in 1789 – the same year that President George Washington was sworn in as President and the First Congress convened in New York City. Yet for many years, manufacturing has declined in America. In 1955, 34% of the American economy was dedicated to industrial manufacturing; today it comprises 14%.

Particularly in the last 20 years, theorists have convinced us that if we let our economic ship steer itself, we would arrive in the new world with a “New Economy” stronger than ever. That self-directing course, according to a recent *BusinessWeek* article, resulted in the belief that a huge “investment in information technology, combined with corporate restructuring, would substantially boost productivity and economic performance.”

If only it were that easy. Tonight, I would like to make a few points that I believe may lead some to conclude that the tomorrow’s solution is yesterday’s answer – industrial manufacturing.

As the United States’ own historical example has proven, long-standing economic leadership requires real exports and an equitable trade balance. Furthermore, success

requires investing in people and technologies that are highly capital-intensive, advanced and tangible. In 2000, manufacturing businesses led all industry sectors by spending \$215 billion on capital goods.

Conversely, most sectors of the so-called post-industrial, information-based “New Economy” satisfy none of these criteria. There is no doubt that industries such as publishing, entertainment, accounting, telecommunications, computer software, financial services, the Internet and consulting are very important. However, these industries should not be regarded as ends in themselves, but rather complements to the robust economic engine of industrial manufacturing.

In his book *In Praise of Hard Industries*, author Eamonn Fingleton persuasively advocates that manufacturing offers the United States three things that the “New Economy” cannot. First, it provides a balanced mix of jobs. According to Michael Rothschild, Dean of the Woodrow Wilson Center for Public Affairs at Princeton University, the United States would marginalize 20% of the American workforce, or 25 million workers if it were to fully shift to an information economy. That is equal to over four times the current unemployment figures.

Second, manufacturing provides high-paying jobs with the potential to pay even higher. Thanks in part to unionization, the average full-time manufacturing worker’s total compensation package is 20% greater than the average U.S. worker. According to 1997 U.S. Department of Commerce statistics, the average manufacturing worker earned \$48,000 in wages, benefits, bonuses and social security contributions; the average worker earned approximately \$40,000.

Manufacturing productivity, the foundation of income growth, rose by an average of 4.3% per year from 1995-1999. At the same time, general productivity grew at less than 2%. Even before the technology boom, manufacturing productivity rose at an average rate of 2.6% for six years. With the exception of wholesale trade, the durable goods sector actually beat all others sectors of the economy in productivity growth.

Third, the “New Economy” cannot possibly compete with the manufacturing economy in exports. 80% of American workers are employed in the services trade in 2000, yet services only accounted for 22% of cross-border trade. As the United States began to transfer to a service-based economy, not to mention the ruinous reduction in protective duties, its trade position has decreased dramatically.

From 1990 to 2000, the deficit on traded goods rose from 2% to 4.6% as a percentage of GDP. Although the United States experienced a trade surplus in services of \$80 billion in 2001, it had a merchandise trade deficit of \$411 billion. In the 6-year span from 1996 through 2001, exports expanded 17%, from \$625 billion to \$731 billion, while imports grew 44%, from \$795 billion to \$1.14 trillion. This resulted in the trade deficit more than doubling from \$170 billion to \$411 billion.

A major reason for this deterioration is that “New Economy” services are cultural-specific, and very difficult to export. In addition, services exports are subject to countless regulations meant to protect the foreign way of life. Defenders of the “New Economy” often mention that services exports have doubled in the last ten years. However, travel and tourism, in which foreigners *visit* the United States, is counted as services exports. In fact, 30% of United States services exports result from foreign tourism, the largest of any sector. Telecommunications, the basis of the so-called “New Economy,” resulted in merely 1.4% of services exports. Financial and insurance services firms only generate roughly 6% of their revenues as exports.

On the other hand, manufacturing offers the United States numerous advantages. For instance, the more advanced a manufacturing operation is, the more likely the factory will be capital-intensive. Therefore, as I stated previously, its workers are much more likely to be highly productive and higher paid. In addition, manufacturing allows longtime incumbents in an industry to develop an enormous amount of proprietary know-how that solidifies their leadership. This advantage takes the form of efficient material input, superior processing, distribution or better defects management. Furthermore, a long-time leader in a field of technology will more easily adapt to new technologies as they arise.

Perhaps most importantly, manufacturing jobs create service jobs. According to the Department of Commerce, a \$1 increase in payroll in manufacturing yields an additional \$1.41 in benefits to other sectors in Chicago. An increase of one job in manufacturing results in an increase of two additional jobs in other areas of the economy. Unfortunately, one additional retail job only equals one additional job in the wider economy, and service workers only create a fraction of an additional job. In fact, with every 100 new manufacturing jobs, 7 new retail establishments and 64 non-manufacturing jobs are created.

Clearly, by subscribing wholesale to the “E-conomy,” the United States is withdrawing itself from this most lucrative of competition. So-called “Old Economy” manufacturing industries such as aerospace, steel, textiles, construction, machinery, power-generation equipment, pharmaceuticals, household appliances, machine tools and electronics are vitally important wealth generators for the economy – and continue to achieve technological leaps and bounds. Unfortunately, U.S. trade in Advanced Technology Products fell to a \$1.3 billion deficit for the first time in January. Ten years ago, the United States had a \$35 billion trade surplus in advanced technology.

Perhaps surprisingly, our trade deficits have been increasing tremendously in both low *and* higher wage countries. Last year, the United States had an \$83 billion deficit with China, a \$30 billion deficit with Mexico and a \$13 billion dollar deficit with Malaysia. In addition, the United States had a \$69 billion deficit with Japan, a \$53 billion deficit with Canada, and a \$30 billion deficit with Germany. Clearly, our trade position is being squeezed by low wages and high technology.

Perhaps the most tragic aspect is that U.S. manufacturers continue to demand skilled manufacturing workers, despite the massive losses to U.S. manufacturing employment.

Since last July, job losses in manufacturing stand at 1.8 million. In 2001 alone, 1.3 million jobs were lost. Those losses accounted for 42% of all mass layoff events and 49% of initial jobless claims. For thirteen straight months, industrial production fell from October of 2000 to November 2001. That was the longest decline since production stalled for 15 months in 1931 and 1932. As of March, the manufacturing sector was only operating at 74% of its capacity – mirroring the lows of 1983.

Thankfully, most analysts believe the bleeding is just about over. Industrial production actually increased for five straight months from January to May of this year. But few Americans are aware this struggle. Despite the phrase “dot-com downturn,” the reality is that American manufacturing was the hardest hit. In fact, according to Challenger, Gray & Christmas, Inc., manufacturing lost 12 times as many jobs as Internet companies in the last two years.

But why the silence for so long? As recently as last November, The *Chicago Sun-Times* reported that R. Glenn Hubbard, the Administration’s own Chairman of the Council of Economic Advisors, told a group of Chicago business leaders that the industrial downturn was a result of higher productivity, and that new growth sectors such as telecommunications, information technology and financial services will make up the slack. *Really?* Telecommunications companies accounted for 14 of the 33 top stock losers and over \$2 trillion in market capitalization lost since March 2000. I doubt that anybody in this chamber would rush to give Worldcom or Cisco a loan right now, including Mr. Hubbard if he were here.

So where is new economic growth going to come from? According to Jerry Jasinowski, President of the National Association of Manufacturers (NAM), 80% of U.S. manufacturers reported a “moderate or serious” shortage of skilled hourly workers in 2001, despite a huge spree of layoffs. Could these layoffs have been a result of faulty national priorities? According to the same survey, only 49% of respondents said they have a “moderate or serious” need for IT technicians. According to NAM forecasters, America could be facing a shortage of up to 10 million skilled workers by 2020.

In my Congressional District, employers echo these concerns to me on a daily basis. According to a recent federally funded study, manufacturers in Chicago and Cook County need 10,500 new manufacturing workers annually; 9,900 of these needed jobs are the result of retirements. Clearly, there is a shortage of new skilled workers, but a large demand.

For example, George Wendt, President of Chicago Rolled Metals at 3715 S. Rockwell, recently told the *Chicago Sun-Times* that a 16-week class at Richard J. Daley Community College allows workers-in-training to get hands-on introductory machining instruction, as well as other general skills. This program is managed by a Chicago area manufacturing technology bridge program, which has asked this Congress for assistance in expanding its operations. According to Mr. Wendt: “(the students) know about our plant, what we do. They’re receptive to my input into the curriculum. The problem is the (bridge program) is on too small of a scale.”

According to a local Manufacturers Workforce Development Project (MWDP) survey, if industrial leaders such as Mr. Wendt cannot find skilled workers, it is estimated that employers will be forced to relocate (probably overseas), placing at risk some of the more than 404,000 manufacturing jobs that exist in Cook County, Illinois alone.

My colleagues, it is programs like these that will revitalize America's industrial base. According to the same National Association of Manufacturers survey, 46% of manufacturers rely on community colleges, or technical/vocation schools for needed training. 34% of NAM's respondents asked Congress for funding to companies for employee training. Accordingly, I urge my colleagues to fund programs such as the Richard J. Daley College manufacturing technology bridge program.

In addition, the United States needs to address its monetary priorities. For several months, NAM has been urging the Bush Administration to change its policy for supporting the strong dollar, which they say have cost U.S. firms \$140 billion in lost export sales and 500,000 jobs in the last 18 months. Although the dollar has fallen considerably, I urge the Administration to heed NAM's concerns.

But most importantly, we as lawmakers need to understand these industrial-sized problems. We live in a wonderful time, but it is also a time of concern. The actions or inaction we undertake in the ensuing months will have a profound effect upon the health, welfare, and economic security of our constituents for decades to follow. We certainly must never again follow the "siren song" of "techie" pundits who view traditional manufacturing with contempt and disdain, and we most certainly cannot believe that jailing a few executives will address the fundamental economic needs of America.

To the contrary, we must remember that the real bedrock of the most marvelous economic engine the world has witnessed, has been manufacturing preeminence. Each course we take, each initiative we embrace, each sector of the economy we sponsor, must honor and enhance this source of so much of the country's strength and wealth. I look forward to working closely with my Democratic and Republican colleagues to bring action to these ideals. Truly, it is time to throw out this "New Economy" idea to yesterday. Mr. Speaker, it is time to fully embrace and nurture American manufacturing.